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Great Britain's Control of International Markets

By SRINIVAS R. WAGEL

WHEN Napoleon called the British a nation of shopkeepers he was not in a position to understand the importance of commerce in the polity of the world. But it is clear now why England, of all nations, should have grown to be the most powerful commercial nation in the history of the world within a century after Napoleon. The object of this inquiry is to show how England was able to control international markets.

ENGLAND BECOMES THE WORLD'S BANKER

From 1830 up to the World War, Great Britain was the supreme authority on international finance. No foreign investment of any kind, no loan of importance to any government in the world and no serious industrial development in any part of the world, has taken place without the concurrence, if not the coöperation of England. Up to very recently, railroad, industrial and mining developments, even in the United States, have been facilitated, if not made possible, by British capital.

It would be absurd to suppose that England set out to become the international banker, or that her own efforts, and not circumstances, were mainly responsible. In the past there have been financial centers other than London. Venice, Hamburg and Amsterdam were the gathering places of bankers and merchants and served in a much smaller way the purposes which London serves to the rest of the world. An international center is a place where those who have surplus bring the surplus for investment, and where those who want to borrow come to borrow. It is the gathering place of all people who have commodities to

exchange—a sort of a central market for at least the most important countries in the world. London got the lead shortly after the Dutch wars which made Holland an unimportant power in Europe, but it was after the Napoleonic wars that London became the financial center of the world. The prestige of having led the then allies against Napoleon and the fact that England was the least hurt by the war—while she had lent money to almost all her allies—was sufficient to start England on the road to the financial power which she attained later.

About the same time, adventurous Englishmen were establishing the trade and government of England in the remote corners of the world. This trade was extremely profitable and precious metals were flowing into England from countries like India and China. England had a fairly large accumulation of gold when she definitely turned to the gold standard in 1818. The adoption of the gold standard at that time was a master stroke of policy. As a consequence England alone had stable money. About the twenties and thirties of the last century no country in the world except England had money which had a fixed value. The United States was suffering from a plethora of continental money. France still had a considerable amount of assignats which were fluctuating in value from hour to hour. Russia, Prussia, Bavaria and practically every other country in Europe had little or no metallic circulation. As a matter of fact, the situation then was very closely parallel to the situation today when all the European nations have no metallic circulation and the United States occupies the position of England.

THE IMPORTANCE OF BRITAIN'S GEOGRAPHIC POSITION

But the adoption of the gold standard alone would not have helped Great Britain to achieve the financial power she did. Great Britain's geographic position was a great help to her. It enabled her to follow a policy of isolation and non-interference with the affairs of the Continent, except when events took place which seriously affected her supremacy. Up to the formation of the *Entente Cordiale*, by which King Edward VII brought Great Britain, France and Russia together, Great Britain had always kept aloof from the struggles and disturbances in Europe. While the various countries in Europe were busy with wars and revolutions, Great Britain was building up a commerce unequalled in the history of the world, up to the war, and was tightening her grip over the finances of practically the whole world. The conflicts between the various European countries—which alone counted, up to very late in the 19th century—and their jealousies of one another enabled Great Britain to be a kind of financial umpire to all those countries. When communications improved and new countries developed commerce, they followed the example of the continental countries of Europe and came to Great Britain.

ENGLAND'S INDUSTRIAL LEAD ON OTHER NATIONS

While the geographical position was important, Britain's efforts in the direction of manufactures and industry were of equal importance. A great many discoveries and inventions which revolutionized manufacture in Europe had their origin in Great Britain in the early decades of the 19th century; even when they had their origin elsewhere, Great Britain was the first to exploit

them. England was rapidly becoming an importer of raw produce and an exporter of finished goods; there were very large profits in manufactures. Other countries in Europe awoke to the situation long after Britain had almost an unassailable supremacy—such a lead that Great Britain became a free trade country while other nations felt it necessary to maintain a protectionist policy. The only country that might have competed with Great Britain at that time was the United States, but in spite of the large natural resources, developments have had to be slow in the United States because of the lack of capital and the political situation. Up to the outbreak of the World War, Great Britain had maintained her supremacy in manufactures, especially of exportable goods, in spite of the advent of serious rivals.

POLITICAL EXPANSION

The growth of manufactures in England, as well as her foreign trade, was considerably facilitated by the political expansion of England. Like the Spaniards of the 15th and 16th centuries, the British were adventurous and established their domain over distant lands and alien peoples. But, unlike the Spaniards, the British did all in their power to facilitate the exchange of commodities; any such growth of trade always benefited her and helped to strengthen her position as the premier trading nation of the world. This does not mean that Great Britain confined her trade to her colonies and possessions, but the existence of colonies and possessions made her position stronger than that of her rivals. Great Britain attracted merchants and bankers from every part of the world. For instance, a Chinese merchant, wanting to sell to the United States, found it easier to deal through London than to deal direct with New York or San Francisco.

WHY INTERNATIONAL TRADE KEPT CENTERING IN BRITAIN—SHIPPING AND FINANCE

The position of Great Britain as a common carrier of the world and her ability to finance trade gave her a control over the commerce of the world. Because Britain is an island, the British people ever since the dawn of history have been a seafaring nation. But only after the development of steamships did Great Britain become the common carrier of the world. Even up to the fifties of the last century the British position as a carrier was unimportant, the United States having had the largest tonnage. When shipping was revolutionized by the introduction of steamships and the building of boats of large tonnage, England took the lead and practically became the arbiter of the world's shipping. Before the war and for several decades previous, Great Britain had fifty to sixty per cent of the total tonnage of the world, while she controlled for all practical purposes nearly three-fourths of the world's shipping by means of combinations, rings and financial control. It is but natural that a carrier should be the most powerful factor in international commerce. Whatever the value and the quantity of goods one may have in a distant part of the world, they are useless for purposes of trade unless bottoms are secured for their carriage to the consuming or trading markets. Britain was able to make or mar trades which involved the carriage of goods by ships. It is not suggested that she used that power arbitrarily; it is only human however, that Great Britain should have used that power for the benefit of her nationals.

Equally important was Britain's ability to finance commerce. By virtue of her position—geographical, political and industrial—she was always able

to accumulate large funds which she was able to use as she liked. As pointed out earlier in this article, political and financial rivalries in Europe helped Great Britain. For instance, a surplus of funds in the French market would not go to Germany, even when the latter needed it; it first came to Great Britain, and was lent by that country to Germany. In this manner, almost every country got into the habit of sending the surplus funds to Great Britain—the world's money market. The bankers of the world knew that any surplus funds they had but could not use at home, could always find a ready market in London, while those who wanted money were also sure that they could borrow in London more easily than in any other financial center.

WORLD-WIDE TRADING KNOWLEDGE

The British could not manufacture goods for world markets, control the world's shipping and finance foreign trade, without a knowledge of conditions in distant parts of the world. Both by long experience and training Britain has a vast store of information relating to governments, institutions and even private individuals in almost every country in the world. The system of gathering information of such kind was started by Great Britain about a hundred years ago and is being maintained at a very high standard even today. Consequently, if a Peruvian company comes to Great Britain for a loan, the British banker generally has all the information he needs about that institution or, if not, he can cable and easily obtain such information. No other country, with the exception of Germany, has had such a vast amount of information, thoroughly reliable as a rule, and kept up to date. Trade information is easily obtainable for the British, mainly because their institu-

tions in remote parts of the world have been established longer, and British bankers and merchants have coöperated with the natives of the lands in which they are established more closely than any other nationals except those of Germany. There was, again, a close coöperation between the government, and mercantile and banking communities, and that facilitated the gathering of financial information which was usually dependable.

METHODS OF FINANCIAL FOREIGN TRADE—A CONTRIBUTING FACTOR TO BRITISH SUPREMACY

For at least five decades before the war, Great Britain had been essentially a creditor nation. The profits of her manufactures and shipping were invested in foreign countries. Some of the investments were direct foreign borrowings, but a large part consisted of credits given by British nationals to merchants of other countries. In order to increase the volume of the trade, the British manufacturers have had to offer inducements, especially to countries which had not developed a pressing want for the manufactures of Great Britain. Then, later on, when Germany and other countries competed with British manufacturers, the latter had to give further facilities in the shape of long credits. British merchants were quite able to grant such credits, because of the development of foreign banking and the fact that London was the bill and acceptance market. The merchants were always reimbursed by the banker immediately on the shipment of goods, while the banker was in a position to wait as long as was necessary before the purchaser in the distant part of the world paid for such goods. The acceptance market was the real pillar of strength to Great Britain in maintaining her position as the financial center of the world. The British

banker became a creditor not only with reference to the goods that were shipped from England itself, but also for many transactions that took place between any two countries in the world. As the surplus money in foreign countries was flowing into England, the British banker could negotiate any bill, so long as it was sound and based upon shipments of goods.

The close coöperation between banks on the one hand and trade and manufacturers on the other was another important factor in maintaining the supremacy of London. At every opportunity the banks took care to safeguard the merchants and the merchants reciprocated. No country could borrow in London unless at least 75 per cent of the amount borrowed was spent in the purchase of goods manufactured in Great Britain, or was used in some manner or other to promote British trade. Straight loans to foreign countries without such provision is unheard of in England. Therefore, a foreign loan meant always business activity in England. Of course, the coöperation between banks and manufacturers is close in England because their interests do not conflict—unlike the situation in the United States. Great Britain is essentially a manufacturing country, with a great part of its prosperity depending upon foreign exports; while in the United States the interests of farmers, bankers, manufacturers and retailers conflict to a greater or less extent.

BRITAIN'S CONTROL OF THE OUTPUT OF GOLD

The factor that helped England a great deal in maintaining her position as the financial center of the world was her position as the chief producer of gold. Ever since the opening of the South African mines, Great Britain has produced from two-thirds to three-fourths of the world's total gold pro-

duction. The control of this gold has given her a power which she could not have had otherwise when the principal countries of the world were all gold standard countries. London's position enabled it to control exchange rates in all parts of the world and to fix rates. This, however, was not done arbitrarily. London, of all centers, was able to fix exchange rates because of its privileged position with regard to the knowledge of the happenings in each nook and corner of the world and the fact that the representatives of trade and banking from almost every country in the world were located in London. This fixing of exchange rates becomes a necessity when bills of every country are negotiated in London and when London is a clearing house not only of money, but of all goods. Before the war, and to a large extent even today, the prices of metals like silver and copper produced mainly in the United States, tin and rubber produced in Malaya, wheat produced in the United States, India, Argentina and Australia, and cotton produced in the United States, India and Egypt, were controlled by London.

WILL THE UNITED STATES SUCCEED
GREAT BRITAIN IN THE CONTROL OF
INTERNATIONAL TRADE?

What about the future? There is no doubt that the war has weakened the position of Great Britain materially, although all her competitors except the United States are weaker still. The future is dependent on the ability or willingness of the different countries of the world to maintain the gold standard. At the present moment, no other

country in the world, except the United States, has the gold standard. The United States, in spite of the vast strides made during the war, occupies a far from satisfactory position so far as competing with England as the financial center of the world is concerned. Today it is the only creditor nation in the world, with the possible exception of Japan; but, being a creditor nation alone is not sufficient to enable the United States to regulate and control international markets. We have more than half of the world's gold supply, we are not concerned with the turmoils of Europe or Asia, and we are not interested in military adventures. While Great Britain is still the largest common carrier, the United States has built up a shipping trade which will soon outstrip that of Great Britain. Our manufactures are several times the total of those of Great Britain and we have a large exportable surplus, both in raw produce and in manufactured goods. We are obtaining the information to enable us to trade in foreign countries satisfactorily, although in some cases we have paid dearly for it. There is every reason, therefore, to believe that, under normal conditions, we will take the place of Great Britain as the controller of international markets. But Great Britain will endeavor her best to maintain her position. If the nations of Europe should combine and repudiate the gold standard, then it would seriously weaken our position. Or, if the present depression in trade and shipping continues for even half the period of the depression after the Napoleonic wars, we may be unable to utilize our advantage.